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POST OFFICE BOX 1759, LA JOLLA, CALIFORNIA 92038
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Mar 11 DJIA 2034.98; PTI 2674; A-D Ratio -8.11
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Current Dow Yield: 3.35%; Dow P/E: 15.7
Dow 200-day mov aver: 2018; DowPow: 1116

Mar. 23, 1988 **LETTER 987**

From my *Barron's* article of October 26, 1987: *"The market's performance during the mid-October period can only be described as a crash. Crash action is extremely rare on Wall Street, but the price action following a crash is universally the surest of any to be seen in the market. There is almost always an automatic recovery, which tends to recoup around 50% of the losses sustained."* And that's what we're seeing now.

MARKETWATCH

October's dive seems but a memory as investors tiptoe back into stocks

By Andrea L. Woolard
Staff writer of The Christian Science Monitor

Boston

Each day that passes without a great reminder of "Black Monday" builds investors' confidence and hope.

Almost five months have passed since the stock market crashed with a 508-point loss in a single day. Dire predictions about worldwide recession have not come to

outlook for corporate earnings, the recovery in equity prices, the accommodation from the Federal Reserve Board in its money policy, and interest rate inactivity.

"What's driving this market is that nothing has happened," says Perrin Long of Lipper Analytical Services, New York. "We've gone almost five months without a 100-point collapse on one day, and this has raised in people's minds the question of whether Oct. 19 was an

A LOOK AHEAD: Since October 19 the stock market has been bouncing higher as it recovers from the greatest crash and downside compression in the annals of Wall Street. The post-crash recovery has been in force for five months and already Wall Street sentiment has turned from dark to sunny (see news clip above). The air is filled with exciting rumors and each morning brings fresh talk of buy-outs, mergers, and take-overs. The market feeds on the rumors.

But ahead lies an election, an unknown president, and a host of major problems all centered on America's future -- the trade deficits, the budget deficits, the declining living standards, the "US for sale" syndrome, and the need to boost exports while cooling consumption. So far, none, and I mean NONE, of the presidential candidates has said anything meaningful about these chronic problems. But as we come closer to November, the market will be looking ahead to 1989. And there are many questions, momentous questions, with few answers being offered so far.

The Odds: Sometimes, simple common sense can tell you more about the market than anything else. Consider this: You're a wealthy investor. You are also a sophisticated market practitioner, and you think in terms of averaging 10% a year (over the years) on your investments. The Dow now provides a thin yield of 3.3% and the US economy is now into its sixth year of expansion -- without a recession. The conventional wisdom says "no recession this year, but maybe a recession in 1989 or '90" (contrary opinion, anyone?). What are the odds of earning 10% in investment-grade Dow-type stocks purchased in today's market? What's the potential reward as compared with the potential risk?

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The well known writer, Nelson Algren, wrote, "Never play cards with a man called Doc. Never eat in a place called Mom's. Never sleep with a woman whose troubles are worse than your own."

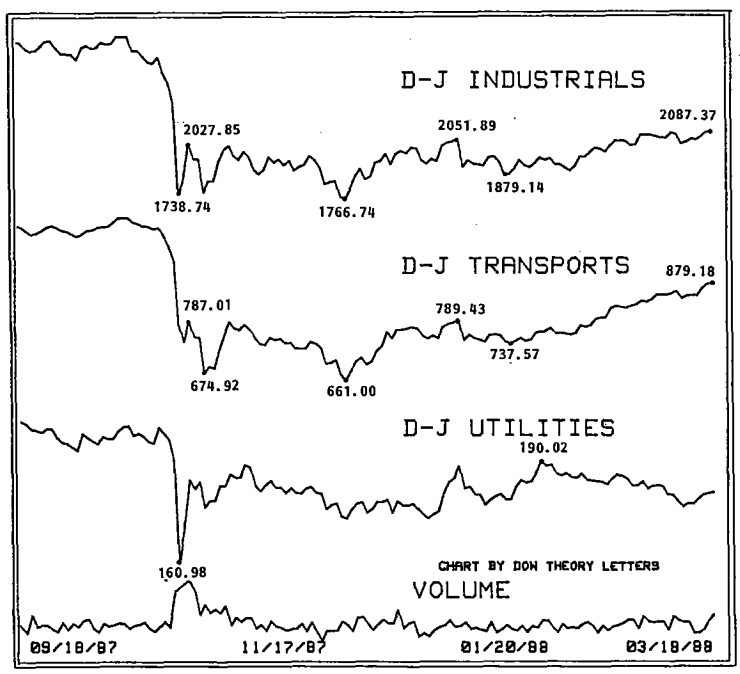
I'll add one: Never bet your bankroll on the advice of an analyst who has recently made a major mistake in the market. The reason is that the dead-wrong analyst is going to move heaven and earth to justify his error. Take the current situation. I would guess that 95% of the nation's market analysts failed to see that a bear market had begun in late-1987, and therefore this same 95% failed to get their clients out of the market before the Great Crash.

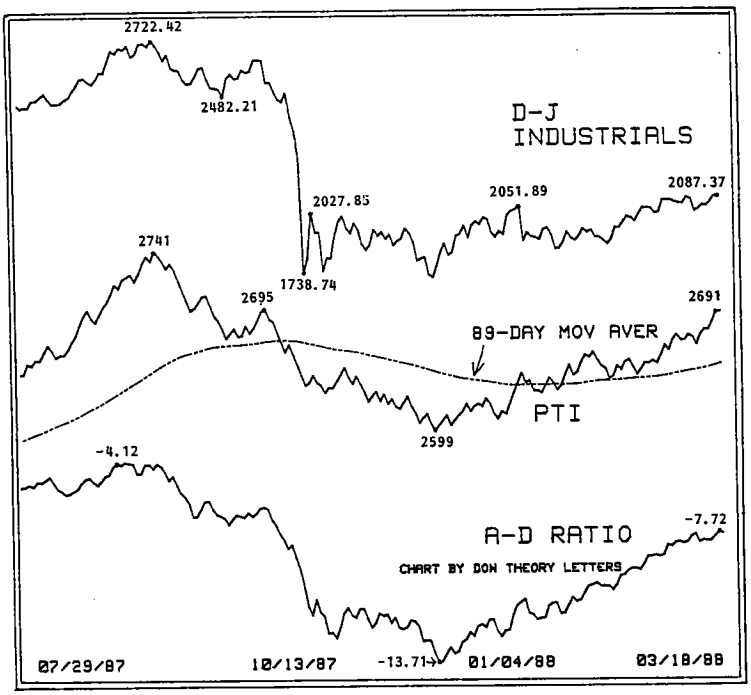
What to do? The normal thing would be to hope that the market and all the averages will rally to new highs. If that happens you can claim that the crash was a "mistake", and that all your clients had to do was sit tight and they'd get their money back. So the analyst who missed the crash has a built-in bullish bias. A new bull market will make everything all peachy again.

Then there's today's stockbroker. With his sales slumping badly, the average stockbroker is looking to be bullish about anything he can be bullish about. So if stocks are going up, count on it -- he's a bull (maybe not with his own money but certainly with yours).

Finally, there's the Wall Street professional, the fund or pension manager. Right now he's not interested in the fact that stocks are back in the overvalued area again. What he's interested in is that the market has been going up, and he's got a pile of cash on the sidelines. The last thing in the world he wants is to be underinvested in a rising (in this case upwardly correcting) market. So he's a bull, and his biggest concern is what stocks to buy and how much -- before the market goes higher.

All right, what about the average investor -- the accountant in New York or the retailer in Seattle? You may remember that I've been saying all along that the bear will do whatever he has to -- to take the largest number of stockholders with him -- down to the final bear market bottom. I stated that the bear will use hope, greed, promising news, violent market rallies, optimistic presidential statements, rosy business reports, anything and everything to keep the average investor hanging onto his stocks and hoping for a return of the bull. To my mind, that's the story of this bear market rally -- so far.





PRICE ACTION: The truth is that it's been a strange post-crash rally. The D-J Transportation Average (the most speculative of the averages) has had an impressive advance. As of March 18 the Transports had recouped 44.7% of their bear market losses.

Of the three D-J Averages, the Utility Average is the most conservative and the one that most correctly can be labeled "investment grade." Therefore, the Utility Average is watched as a bellwether of what conservative investment money is doing.

The post-crash Utility rally was impressive. The Utility Average moved up smartly; then (surprisingly) it topped out on January 29 at 190.02, having recouped 55.7% of its August-October losses. But since its January peak, the Utilities have been diverging (declining) steadily, and in recent Letters I have warned that a declining Utility Average is a negative sign. You may remember that the earliest hint of trouble in 1987 was the January top-out of the Utility Average.

The D-J Industrial Average is the highest grade of the various industrial stock averages, and it's the one that every veteran analyst likes to see leading the market. Yet, strangely, the Dow has been a laggard ever since the October 19 crash low. On March 9 the Dow hit a post-crash recovery high of 2081.07 (thereby recovering 34.8% of its bear market losses), but the next day the Dow dropped a thumping 48 points. As of last week (and very few people realize this) the Dow was only a few points above the 2026.85 level it hit on October 21. That was the level recorded only two days after the October 19 crash.

But breadth has been in a "Buying Stampede" -- As veteran subscribers know, I define a buying stampede as *any rise of five or more points in the advance-decline ratio without so much as a one point intervening correction.*

On December 4 (see page 2 chart) the A-D ratio recorded a bear market low of minus 13.71. From that low point, the A-D began its post-crash advance. By February 29 (without an intervening one point correction) the A-D had advanced five points. The action from December 4 to February 29 and to the present can therefore be labeled as a buying stampede.

This stampede in breadth has been the main strength of the market, and it has been far more impressive than the sub-standard rise in the investment-grade D-J Industrial Average.

How will the buying stampede end? It will end when the A-D ratio drops one full point from its highest peak. Once the stampede is over, we can expect to see a period of hesitation or sideways movement. In bull markets such sideways corrective moves often pave the way for a second buying stampede. In primary bear markets the sideways structure following a buying stampede can mark the beginning of the formation of a major top.

The last buying stampede within a primary bear market occurred between August and October 1973. When that stampede ended, the market resumed its bear market path.

My Primary Trend Index (PTI) has been giving the OK to this rally, having broken out decisively above its 89-day moving average (see page 2 chart). In a bull market, I would have followed the PTI without a second's thought. In a bear market, I prefer to watch the market and get my sleep at night.

Overall Conclusion: The A-D ratio has been up **14 out of the last 15 weeks** The market is therefore extended and overbought. For this reason, I would guess that the buying stampede is nearly over. Rallies in a bear market can be very tricky -- and they can end suddenly, without the usual distribution. It's time to be very careful.

INVESTMENT POSITION: The bear continues to rule the box. One of the characteristics of bear market rallies is that they tend to look unstoppable -- they often look better than bull market advances. The post-crash recovery rally has been no exception. With breadth going up week after week the market has had that "irresistible upside" look. Don't trust it. Bulls view the market as deep in a five-month advance. I view the market as five months nearer the resumption of the bear.

Auto sales up, housing starts up on the latest figures, factory production up. It all sounds good, but it's all history. Remember this -- the market doesn't operate on yesterday's or today's news. The market operates on the news of tomorrow, or next week, or next month.

High-grade bonds, plus gold and cash are my preference now.

MONEY THOUGHTS: There are thousands of ways to make real money, and I've spent a lifetime studying and analyzing many of them. Making real money entails, (1) intelligence, (2) a strategy, (3) a certain amount of courage, depending on the strategy used, (4) persistence, usually single-mindedness, often to the point of being obsessive, (5) a knowledge of one's own psychological make-up, (6) the ability to sacrifice -- a lot, if need be, for one's ambition, and last but not least, (7) a modicum of luck.

Most of the huge fortunes of today have been made utilizing a great deal of chutzpah, a powerful spirit of acquisitiveness (which is not necessarily bad), and an ability to borrow massive amounts of money. With this we better add a portion of luck or at least a streak of fortuitous timing.

Few of us can be a Donald Trump, a Trammell Crow, a Boone Pickens, or a Paul Reichmann. We probably don't have the vision or the courage or the drive or even the desire. And we probably aren't willing to sweat and sacrifice for money and power to the extent that these men were willing. Which may be another way of saying that we just want to live more "normal" lives than the Trumps or the Reichmanns. Sure, most of us read about these billionaires, and we dream about how nice it would be to have their money and power. But when it comes to the sacrifices and the sweat, we bow out. The fact is that we don't want the money as much as they do. If we did, we'd move heaven and earth (as they did) to make it.

There's something else involved. With a few exceptions (such as the brilliant Warren Buffet or T. Rowe Price) most of the mega-millionaires have been very tough, and even ruthless. Few can say that they didn't step over somebody in their rise to power. Personally, I don't have that makeup in me, and I would guess that most people don't. I like to be fair, I like to treat people decently, I like to sleep at night with a clear conscience. So I probably don't have the mental makeup to do what is necessary to make "the big mega-bucks."

Instead, I've had to develop a strategy and philosophy that fits my psyche. But that doesn't mean that I don't like money and the freedom it brings -- because I do. My basic strategy has always been to harness the power of compounding. I understand compounding. I have the patience to use it. Older readers know that I ran a long series on the wonders of compounding assets a few years ago (and I'll doubtless be writing more about compounding in future Letters).

Along with compounding, I've adhered to my theory that "*if you don't lose money, you'll make money.*" Now that theory necessarily labels me as a conservative. And I guess I am. To me, the stupidest thing you can do in this business is make some money in a bull market, and then lose it (and probably more) in a bear market. But that's what happens more often than not. Which probably gave way to the old Wall Street definition of an investor -- a guy who buys some stocks and spends the rest of his life trying to get even.

From an investment standpoint, the surest way to make money is to buy good dividend-paying stocks at or near a bear market bottom, continue to buy more stocks (compounding) all the way up in the ensuing bull market -- and sell out at or near the bull market top. And then STAY OUT until the next bear market bottom.

That's the surest way to get rich, but it's not necessarily the easiest way. Why? Because it requires great patience, stubborn adherence to a strategy, and a knowledge of the primary trend.

Actually, you can do the same thing with bonds since bonds offer a good rate of return and since bonds are also subject to major bull and bear markets. As a matter of fact, since I believe stocks are in a primary bear market and bonds are still in a bull market my own strategy is to compound my money in bonds (tax-free high-grade muni bonds are the medium I use at present).

If or when I believe bonds are overpriced, I will doubtless send them back to Wall Street and either go into cash or back into stocks. As a matter of fact, if, over coming years, I see stocks (due to the bear market) becoming great values again and I see signs of a major bear market bottom, I will doubtless opt to switch from bonds or cash back into stocks.

Now obviously I am never going to become a Trump or a Pickens with this policy. First of all, I'm not a borrower. Having lived through the Great Depression of the 1930s, psychologically, I'm not equipped to be a big borrower (debt makes me nervous). And if you want to be a world-class tycoon, you almost always have to borrow and borrow big.

But I know myself and I know my own limitations, and I am satisfied with my own strategy and its results. Actually, I'm writing about myself simply because I want to present an example of one way to operate with your investments. There are as many ways as there are people, which presents a problem because I have to write for thousands of subscribers, and each has a unique personality and unique problems.

But as I see it there's one piece of information which involves ALL investors regardless of their method of operation -- and that is the DIRECTION of the primary trend of the market. If the main trend of the market is bullish and with you, then often that's all the "luck" you need. If you're going into the business of investing against the primary trend (i.e., in a bear market), the odds are going to be stacked against you.

I think the next section fits well into what I've written above.

VALUES AND THE BOTTOM: How do you know when a bear market has finally hit bottom? One of the best criteria is the test of values. There are any number of value criteria, but the one that I believe holds up best is yields or the return on investment.

Along these lines I feel that the chart on page 4 (courtesy of *Investment Quality Trends* in La Jolla) tells a most important story. IQT carefully monitors a universe of 350 blue-chips -- all dividend-paying stocks. Each individual stock is graded for a number of characteristics including its own yield cycle. Thus, historically, a stock such as GE might be a great value at a 6% yield and be overpriced at a 2.0% yield.

The accompanying chart takes the Dow and IQT's undervalued percentage (i.e., Blue Chip Verifier) back to 1966. What we see here is a graph showing the percentage of IQT's 350 blue-chip stocks which are undervalued at any given time.

Note that over the years this graph has been remarkably accurate in identifying both bull market tops and bear market bottoms. At bull market tops the percentage of undervalued stocks tends to drop to around 12%. In other words, at bull market tops there are very few undervalued stocks.

Conversely, at bear market bottoms the percentage of undervalued stocks rises to levels around 80% -- actually 82% in 1974 and again 82% in both 1980 and 1982. In other words, at or near a bear market bottom when stocks are bargains, as many as 80% of the blue-chips are in the undervalued zone.

This observation gives way to a great investing formula, but it's a formula which requires great discipline and patience. The formula is as follows: Buy your head off when the undervalued percentage rises to around 80% or higher. Then hold those stocks until the undervalued percentage declines to 15% or lower. At 15% or lower, sell everything, and don't do a thing until the undervalued percentage rises to around 80% again.

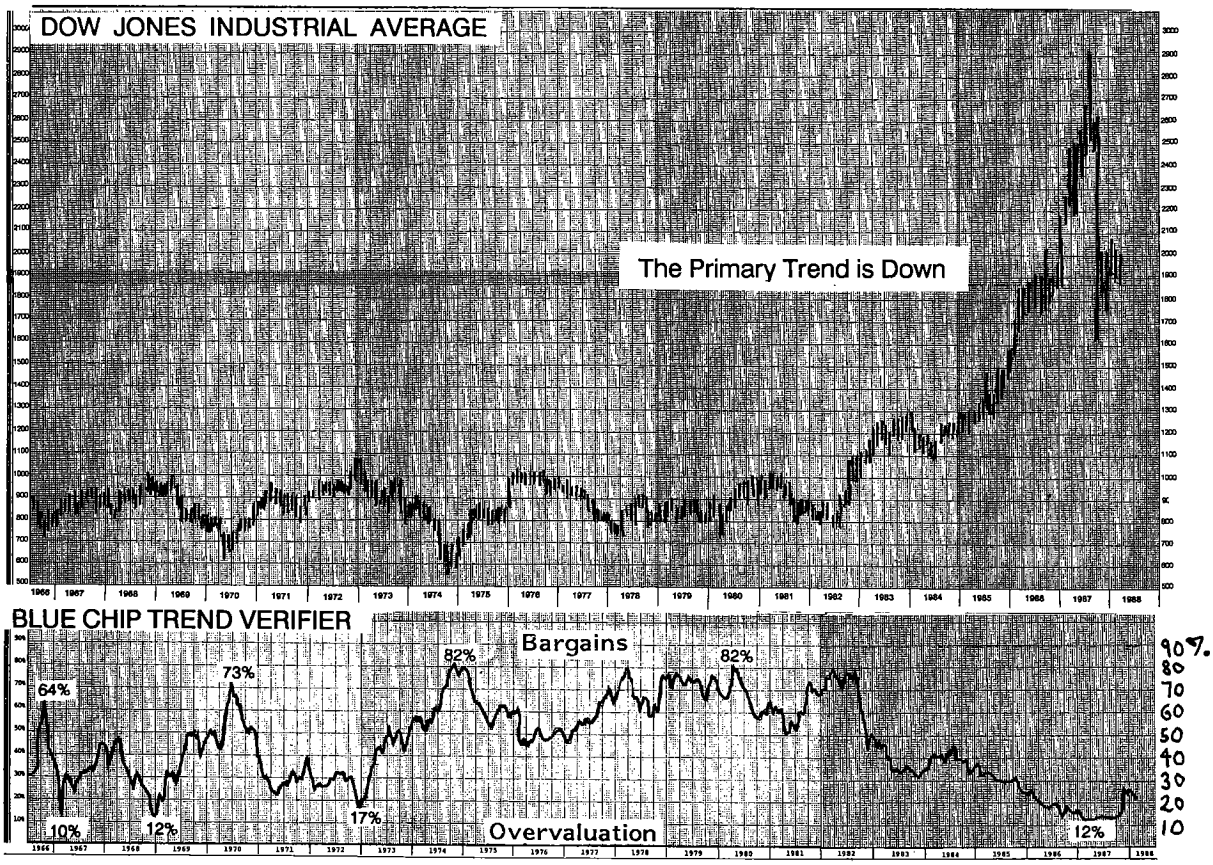
Where does this put us now? At last year's August (bull market) high the undervalued percentage dropped to an extreme low of 12%. In other words, there were very few bargains around and stocks in general were a sale. At the October 19 crash bottom, the undervalued percentage rose to 24% -- still very far from the 80% that is seen at major bear market bottoms.

At the latest reading the undervalued percentage had dropped to 21%. On this basis, the market is again within shooting distance of the area of overvalued tops. So here we are, five months off the October 19 crash lows, and the study shows only 21% of the blue-chips are in the undervalued area.

So what time is it? It's time for patience, with the realization that stocks are now on the edge of the overvaluation zone -- the danger zone. And in a continuing bear market (such as the one we're in now), I would say that the 21% undervalued zone is particularly dangerous.

Another fine value study was just published by *Growth Stock Guide*, Box 6600, Rapid City, SD 57709. In a study covering 87 years of market history, GSG found that when the S&P 500 Composite sells at 30 times its dividends it is expensive. Furthermore, such overvaluation levels have always led to major declines, the average decline being 40.4%. This situation (i.e., stocks selling at 30 times or more times dividends) has occurred on 12 occasions between 1900 and 1987.

Conversely, GSG cites 11 occasions between 1900 and 1982 when investors were only willing to pay around 15 times dividends. From this bargain area, stocks have always risen (in due time) to



The *Blue Chip Trend Verifier* charts the percentage of Undervalued stocks in each issue of I. Q. TRENDS since the service was founded in 1966.

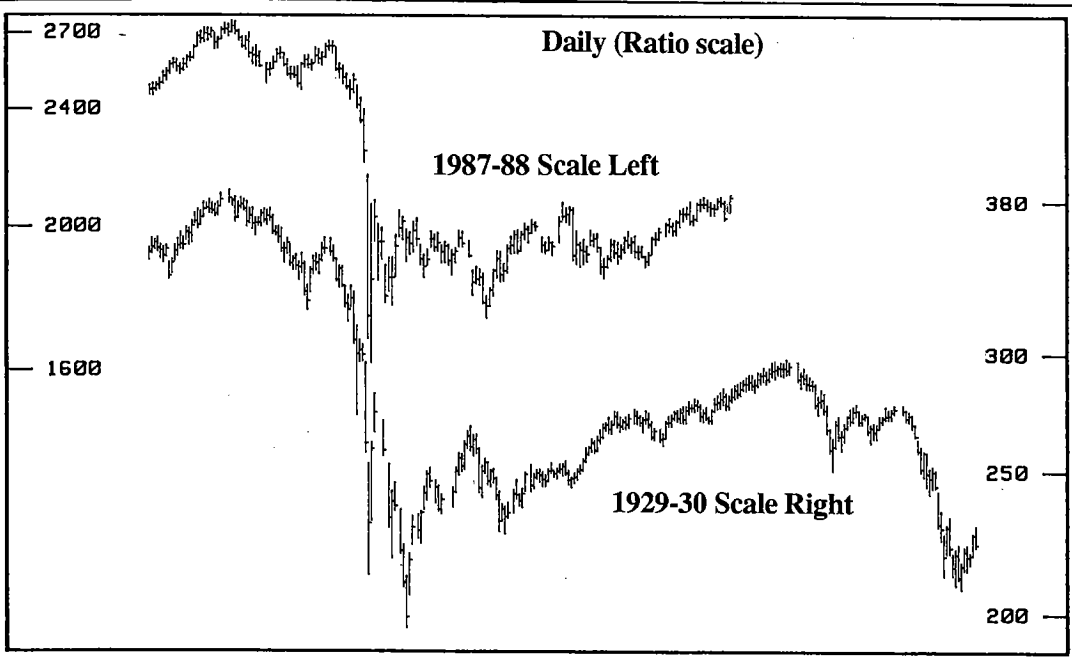
the overvaluation area of 30 times dividends. The rises from 15 or below times dividends to 30 or more times dividends averaged 272%. In other words, buying at bear market bottoms and selling at bull market highs has proved extremely profitable over the years. But how do you do it?

Here's the secret: You do it with knowledge, a definite strategy -- and patience.

Where are we now in the GSG study? Right now the S&P 500 Composite is selling at a little better than 29 times dividends. In other words, the S&P 500 is on the edge of overvaluation -- on the edge of the danger zone.

Conclusion: Both of the above studies indicate that stocks are now back on the edge of the overvalution zone. Now there's nothing to say that stocks can't become more overvalued, but from this point on the gamble of owning stocks increases, and the danger of getting caught in another downside mess increases.

Furthermore, at this point the benefits of owning stocks becomes minuscule from a return on the investment standpoint, since the yield on the Dow is now only 3.3%. The yield on S&P's 400 Industrial Average, by the way, is down to 2.96%. As in mid-1987, we are again in a market with thin stock yields and rising bond yields.



COMPARISONS: At left is a chart that was just sent to me by subscriber John Carder, PO Box 4283, Boulder, CO 80306. I have been corresponding with John (who does some of the best computer work that I have seen anywhere) for many years. John and I have both been fascinated by this post-crash market action.

This is not a disguised prediction, but it is certainly interesting to see how the current post-crash market fits in with the 1929-30 post-crash market. This chart tells the story, and obviously the top pattern is the current formation while the lower pattern is the 1929-30 formation. I wanted to

include this chart, because it shows how tricky and insidious bear markets can be. The 1929-30 post-crash rally looks considerably better than the one we are watching today.

NOTES & QUOTES: The crash cooled the merger fever, right? Wrong! In the first two months of 1988 the frenzy increased with 554 merger deals worth $43 billion, up 50% from last year. Thus the fever to liquidate, to turn long-term assets into instant profits, continues unabated. Along with this comes "fragility" with many corporations selling off valuable assets to pay for the mergers while others take on massive, almost unsustainable, debt.

* *

Through the centuries the tell-tale test of a nation's rising power (or lack thereof) has been the trend of its foreign reserves (in the old days it was whether that nation was accumulating gold or losing gold). Along those lines, study this: Last year Japan became the world's largest holder of currency reserves, gaining the equivalent of $32 billion to a total of $81.1 billion (IMF figures). Japan passed West Germany which gained $18.7 billion for a total of $78.8 bilion. Meanwhile, the US lost $8.7 billion for a total of $34.8 bilion.

Reserves include holdings of foreign currency, IMF special drawing rights, and gold. As for gold, Japan moved to first place with 61.5 million ounces of gold, up from 35.4 million at the end of 1986. West Germany's gold stock rose to 59.2 million ounces from 45.6 million a year earlier. Meanwhile, the US gold stock dropped to 32.5 million ounces, down from 39.8 million.

* *

A book that has created a minor sensation is Paul Kennedy's "The Rise and Fall of the Great Powers, Economic Change and Military Conflict from 1500 to 2000." The book is a broad study of why nations gain and lose worldly prominence, power, and wealth. Kennedy has spoken before Congressional committees, bankers, been on McNeill-Lehrer, etc. In a recent interview for the LA Times, that newspaper notes:

> On the whole, Kennedy is unwilling to prescribe specific remedies or to exactly predict the consequences of current trends.
>
> However, this reticence evaporates when he talks about the federal budget deficit, which in the seven years of the Reagan presidency has more than doubled the national debt to $2.4 trillion.
>
> "I think nothing in the annals of 500 years of history—that I can find—is the equivalent of what the Republican Administration has done since '81. . . . It really is extraordinary. The one case I can think of of a great power's central government increasing their national debt so swiftly in peacetime was France in the 10 years before the outbreak of the French Revolution, which isn't a very happy precedent at all. The only other two cases I can think of are Nazi Germany and Japan in the mid- to late '30s. But they were putting it into armaments because they were going to go to war and they were going to plunder and make other people pay. So that's not really a good analogy either."
>
> Striking an ominous note, Kennedy said, "If I'm going to preach about the lessons of history at all, it is that societies which did not invest in the future but invested too much either in defense or consumption were destined to be overtaken by those with a different set of priorities."

* *

Russia's Gorbachev could be vulnerable. He is attempting to scale down the military, pull out of Afghanistan, and build up his nation's productive capacity as well as modernize the Russian economy. This involves reducing the power of many high-ranking and entrenched Russian leaders. Gorbachev, unlike Stalin, Khrushchev, and Brezhnev, has not captured the Communist Party apparatus. And he has many powerful enemies including Chebrikov, head of the KGB, and rival Politburo member Ligachev. The riots in Armenia and Azerbaijan could be a difficult test. If too many "natives get restless," the pressure will be on Gorbachev, and his enemies will say that his *glasnost* and *peristroika* are undermining and fragmenting the Russian empire.

* *

Remember the cashless, checkless, society, the bookless, newspaperless, all-electronic society? It hasn't happened yet -- not by a long shot. From 1959 to 1986 consumption of writing and printing paper has increased from 6.83 million tons to 21.99 million tons, up 320%. Industry estimates stated that between 1986 and 1990 use of paper will increase from 2.5 trillion to 4 trillion pages.

* *

My friend, C.V. Myers, notes that for the first time in 125 years the cost of discovering a barrel of oil in the US is higher than the cost of a barrel being consumed. He notes further that "since 1970 the world has used oil at the rate of 20 to 25 billion barrels a year. During the same time span we accumulated oil at a rate of 10 to 15 billion barrels a year. That 10 billion barrel a year drawdown has started to exhaust mature oil reserves, many of them in the US." Myers states that the US is growing critically dependent on foreign oil -- especially from the Mideast. Saudi Arabia alone holds 167 billion barrels of oil or 27% of the world's proven reserves. Eighty percent of this oil can be produced at 30 to 60 cents per barrel.

* *

They make Donald Trump look like a pauper. Who are they? The three Reichmann brothers of Canada (originally, emigrants from Nazi Austria). The Reichmanns control over 50 million feet of office space in N. America and are Manhattan's biggest commercial landlords. Estimates of their real estate holdings run to more than $11 billion. Their securities holdings are near $5 billion. This chart (*courtesy US News & World Report*) shows you the incredible holdings of the Reichmanns, the world's biggest real estate developers (they are known to most US investors only through Olympia & York).

REICHMANN OLYMPJA & YORK HOLDINGS IN PUBLIC COMPANIES

	Percent held	Value of holdings
Gulf Canada Resources Oil-and-gas exploration and production	70.0	$1.68 bil.
Abitibi-Price Newsprint manufacturer	76.9	$1.04 bil.
G. W. Utilities Gas utility, pipeline, liquor and food distributor	88.4	$618.5 mil.
Trilon Financial services	12.6	$102.7 mil.
Campeau Real estate; retail, including Brooks Brothers and Ann Taylor	22.4	$52.4 mil.
Santa Fe Southern Pacific Oil and gas, forestry, railroad	19.6	$727.1 mil.
Trizec Shopping-center development. The Rouse Company, Ernest Hahn	36.5	$620.7 mil.
Landmark Land Company Real estate, building materials	24.8	$24.2 mil.
	TOTAL VALUE:	**$4.87 bil.**

Note: Percentages held are as of Feb. 22, 1988. Value of holdings are as of Dec. 31, 1987, and are based on the December, 1987, average exchange rate of U.S. and Canadian dollars. Gulf Canada figures represent value of common and preferred stock. Santa Fe figures assume completion of share-purchase offering. Campeau figures assume maximum investment based on agreement in principle and the conversion of all convertible debentures. For Allied Lyons, 100 percent of convertible preferred shares are convertible into approximately 10 percent common shares.

* *

The US isn't the only one. The Vatican is currently spending twice its income. The Vatican bureaucracy (called the Holy See) is running a deficit of $1 million a week and is in a chronic financial crisis. The projected deficit of $61.8 million for '88 (last year's deficit was $56 million) will be partially offset by money from "Peter's Pence," which is a fund made up of contributions intended for the poor.

* *

Due to the cheap dollar and new tax rulings, sales of high-price European luxury cars in the US are caving in with Porsche down 39% and Mercedes down 27%. Moving into the gap are the Japanese with almost all the Japanese car companies coming out with luxury models. Leading the pack is Honda whose Acura Legend is said to be "eating BMW alive." The Japanese cars are pushing into the $30,000 range. Coming price for the popular Mercedes 300E $50,000, for the new super-luxury 12-cylinder BMW 750iL $67,000.

* *

Where do the kid geniuses come from? You better believe it -- New York. Checking the 12 high schools who have produced the most winners in the Westinghouse Talent Search, 10 of those high school are in NYC, the top two being Bronx High School of Science (107 winners) and Stuyvesant High (65 winners). Note, 40% of the students at Bronx High and Stuyvesant are of Asiatic descent. Also, students at both of these schools are carefully selected out of thousands of applicants.

* *

The FBI and the DEA have joined in a six-city fight against gangs and drugs, the six cities being NYC, Miami, Chicago, Houston, LA, San Diego. Glenn Levant (Deputy Chief of LA Police Dept.) stated the following, which might come as a surprise to most drug-users:

> **LEVANT: These are morons, out-and-out hoods. I can't say anything good about them. I don't think they can read — which is another problem, the dropout rate in this country. But our message is that if you use drugs, you'd better be prepared to pay the consequences, because you're going to go away for a long time — and we're going to take away everything that you ever bought with a drug dollar.**

USA TODAY: Does that include cars and other property?

LEVANT: We'll take their shoes away from them, if we have to. We take clothes, jewelry, houses, cars, real property. Anything that they own that they bought with drug money, we're going to strip away, and we use that money we get from them to fight the war against other people like that. Just prosecute them to death.

USA TODAY: What about those who are buying the drugs? How do you deal with them?

LEVANT: If we see someone who is a buyer of drugs and he happens to be driving — and in Los Angeles, everyone has a car — he walks home after he gets out of jail. We keep the car, using the federal civil forfeiture laws. We've done that since October, and that makes a pretty good statement. We've taken everything from a '52 pickup truck to a brand-new Porsche.

USA TODAY: Are the cars returned?

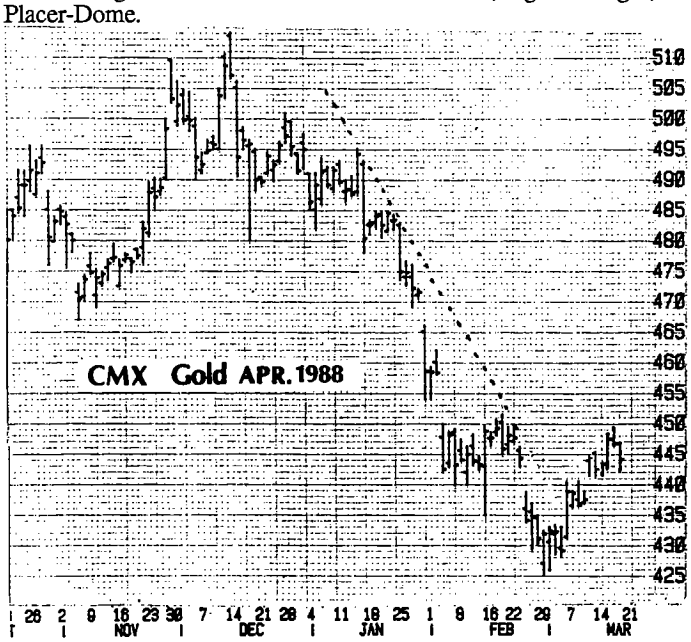
LEVANT: They don't get them back. If you use any kind of conveyance — such as a car — to transport any kind of narcotics, that car is gone.

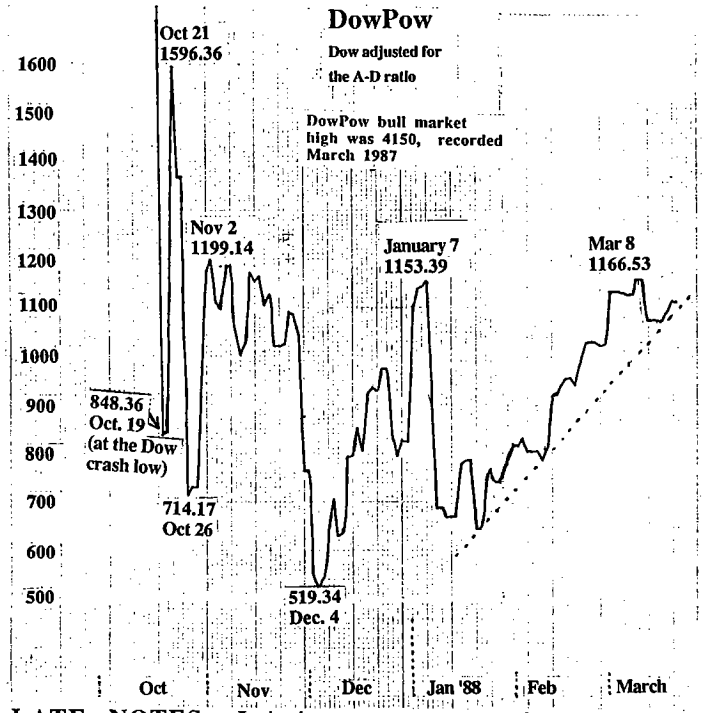
I'll be speaking at the big ISI/FNN Conference in LA, April 13-17. This will be a big-name collection of top speakers. It's a Charlie Githler sponsored seminar, so if it's anything like Charlie's past seminars, it's guaranteed to be a winner. For info call 813 955 0323 down in Sarasota, Fla.

GOLD: If I had to guess now, I would guess that Dukakis will oppose Bush for the Presidency. I see both of these men as weak on budget control. Dukakis as leader of the Dems would be a typical Democratic spender. Bush, as leader of the Eastern Republican establishment, would be a weak president, a spender, and would not be tough on budget control. Frankly, I haven't heard an intelligent word from either of these two on controlling the budget. Adding to the budget trouble that I see ahead is the strong probability that any President in 1989 or '90 is going to face a budget-busting recession.

In view of this, I continue to recommend the systematic accumulation (on a monthly fixed dollar basis) of gold bullion coins. Frankly, in the 27 years that I've been writing about gold, I've never been less interested in the price of gold. I don't care whether gold rallies back to 500 or drops to 350. I do care about my subscribers embarking on a program of buying gold and buying those coins on a regular monthly basis. I think subscribers can buy gold to the point where gold represents 10% of their assets.

What about gold stocks? The gold shares have taken a big hit and are now down substantially from their 1987 highs. Therefore, I don't see anything wrong with putting some money into North American gold shares such as Newmont Gold, Agnico-Eagle, or Placer-Dome.





LATE NOTES: It is important to remember post-crash recoveries are more or less automatic. Thus the inevitable rallies that follow crashes do not offer predictions of things to come in the economy. The recovery (usually 50%) that follows a crash relates specifically to the oversold condition brought on by the crash rather than offering any prediction for the future of the economy.

With the A-D ratio up on 14 out of 15 weeks and the "buying stampede" still in force, the market has given the impression of being irresistible and unstoppable on the upside. From a price action standpoint, only two items have cast any shadow on the rise. One is the diverging Utility Average -- it just doesn't want to join in the upside parade. The other is DowPow, my proprietary index which is the Dow adjusted for the action of the advance-decline ratio.

Note that DowPow is still below it Nov. 2 peak of 1199.14 and far below its peak of Oct 21. Furthermore, DowPow's rising trendline from the January low is in jeopardy. How to explain the poor performance of DowPow? The explanation is that there have been very few days when the Dow produced large gains accompanied by big breadth gains. But there have been days on the downside when both the Dow and breadth lost big.

Thought: As this is written, the D-J Industrial Average is only 1.6% above its October 21 peak of 2027.85, a peak posted two days after the crash. Less than 2% progress in five months --- hardly impressive action.

I've received many letters from subscribers seeking to explain the recalcitrant Utilities. Some feel that money has been coming out of the conservative utility shares and going into the more venturesome industrial stocks. That might explain it, but I prefer to just take any and all price action at face value. A diverging Utility Average is a negative no matter what the "explanation" is.

The bonds have definitely topped out, at least on a secondary basis. Factories are working overtime, and economists, almost to a man, have jettisoned the idea of a recession in '88. Inflation fears have taken the place of recession fears and the bond market is doing what it always does in the face of inflation hints -- backing off. Any intermediate decline in bonds, as far as I am concerned, will present another opportunity to buy them.

NEXT MAILING: April 6